

Progress of the American Economy in 1962

IN 1962 the American economy achieved new records in sales, production, employment, and income as it continued to recover from the recession of 1960-early 1961. The trend was upward throughout the year though there was a slowing down in the rate of advance in the second half. Personal income reached its high point in December at a seasonally adjusted annual rate of \$450½ billion, up \$2½ billion from November, and \$20 billion or 4½ percent over December 1961. Most of this was a gain in real income.

The gross national product last year advanced to \$554 billion, an increase of \$35 billion or almost 7 percent over the previous year. This rise in output resulted in a record flow of income to consumers and reflected new peaks in consumption and government expenditures.

With the labor force, the stock of capital, and productivity continuing to rise, the Nation's enlarged ability to produce was a key factor in holding down the rise in overall prices, in the face of the sizable increase in demand that occurred. About \$28 billion of the \$35 billion GNP rise represented an increase in physical volume—a gain of 5½ percent over 1961. The 1½ percent GNP price rise was about the same as the overall price advance that had taken place in the previous 3 years.

Despite these gains a number of the problems that have characterized the economy in recent years remained. While increased employment opportunities brought about a reduction in the volume of unemployment, the number of persons out of work in relation to the labor force remained well above the

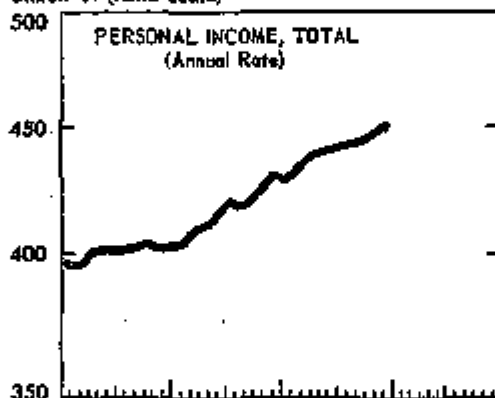
average for the postwar period. Although there was an improvement in the balance of payments deficit, a sizable excess of payments over receipts persisted. Private domestic investment,

moreover, continued below the volume necessary for a vigorous expansion of the economy.

PURCHASING POWER

Continued To Rise—
Up 6 Percent in 1962

Billion \$ (ratio scale)



Resulting in a Climb of 7 Percent
in Retail Sales

Billion \$ (ratio scale)



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Increases in all markets

Sales to all major markets—consumers, business, government, and foreign—increased over 1961, with consumers and government showing the largest dollar increases over the previous year. As a stimulus to the economic advance in 1962 the rise in government expenditures was of prime importance, in view of the moderate gains shown in private investment, which presented a somewhat mixed picture.

It was a good year for residential construction but business plant and equipment, although up from 1961, continued low in relation to GNP. Because of this the Federal Government undertook a number of measures during the year aimed at stimulating this important segment of demand. Exports rose to a peak last year but imports increased more, so that the net merchandise balance was lower than in 1961. Finally, personal consumption expenditures moved ahead under the influence of rising disposable income, continued growth in services, and a sharp rise in automobile expenditures over the previous year.

Large rise from 1961 low point

Measured from the low point of the previous recession, early 1961, the cyclical advance in economic activity in 1961 and 1962 has been of substantial magnitude. By the fourth quarter of 1962 the GNP had increased by \$61 billion or 12 percent. Personal income

was up by \$47 billion, nonfarm employment by 2 million persons, and industrial production by approximately one-sixth.

Gains within the year were less than in 1961, when there were sharper advances characteristic of an initial recovery period, and somewhat irregular. Business inventory policy, influencing steel buying in particular, at first stimulated but subsequently depressed output and income, while automobile purchases moved erratically upward over the year, being unusually strong in the fourth quarter when the new 1963 models made their appearance. Throughout the period government buying was a steadily increasing source of demand.

Income at peak

With production of goods and services at a new high in 1962, the flow of income also reached a record. Personal income totaled \$440 billion, a gain of \$24 billion over 1961. All types of income were up over the year with wages and salaries accounting for \$17 billion of the rise. Government payrolls expanded by some \$4 billion while the remainder was divided about equally between commodity-producing and other private industries. Transfer payments also bolstered the flow of buying power. Although social security and other benefits continued to rise, the reduction in unemployment brought about a decline in unemployment benefit payments, so that the advance in total transfers in 1962 was smaller than in the previous year.

The flow of labor income within the year brings into clear focus the slowing down in the rate of the production advance. From December 1961 to June 1962, wage and salary disbursements increased by \$8½ billion at a seasonally adjusted annual rate. From June to December, by way of contrast, wages and salaries increased by less than \$4 billion, and of this amount, \$2 billion represented an increase in government payrolls.

Profits at a new high but under pressure

Corporate profits after taxes rose by \$2.7 billion over 1961 to reach a record total of \$26 billion. The course of profits within the year, however, was

in marked contrast with the year before, which had seen increases in successive quarters, as output moved sharply up from the earlier cyclical low. During 1962 there was essentially no change in profits from the fourth quarter 1961 rate, as business gross margins were under pressure from the keen competition that characterized most markets. Under the circumstances the moderate production gains during the year were apparently not large enough to offset the increases in such cost items as depreciation and taxes, which have been showing a secular rise through the postwar period.

Employment up, unemployment down

Higher output brought employment to a new high last year and an improve-

ment in the unemployment situation. The expansion of the civilian labor force was smaller than usual. It rose by about 400,000 to a total of almost 72 million while employment advanced 1½ million and unemployment fell by 800,000 from 1961. Hours of work were up for the year as a whole, but the increase in manhours was less than the output advance, implying a considerable increase in productivity.

As with most measures of economic activity, employment gains after mid-year were quite small. Seasonally adjusted employment in nonfarm establishments rose by about 60,000 from June to December, after having risen by 1 million in the preceding 6 months; almost all of the second half employment gain was in government and services.

The unemployment rate for the year as a whole averaged 5.6 percent of the civilian labor force, as against 6.7 percent the year before. Unemployment showed most of its improvement in the current recovery from the late fall of 1961 to the middle of last year but changed little thereafter.

Financing was easier

Monetary authorities maintained an adequate volume of bank reserves during most of the year to facilitate the growth in bank credit and there was only a small rise in short-term interest rates, part of which was dictated by balance of payments considerations. With the supply of long-term funds more than ample for the modest increases in business fixed investment, consumer durables, and home purchases, there was a slight downward movement in long-term interest rates over the year.

The break in the stock market was sharp and disconcerting, but it did not result in prolonged major repercussions on business activity. At the low point of the market decline in June, following the break in May, stock prices were 25 percent below the high reached in late 1961. The recovery late in the year brought yearend quotations to within 15 percent of the earlier peak.

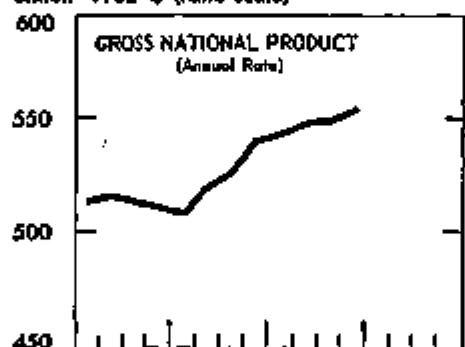
Balance of payments deficit reduced

Last year the balance of payments deficit was reduced to approximately

NATIONAL OUTPUT

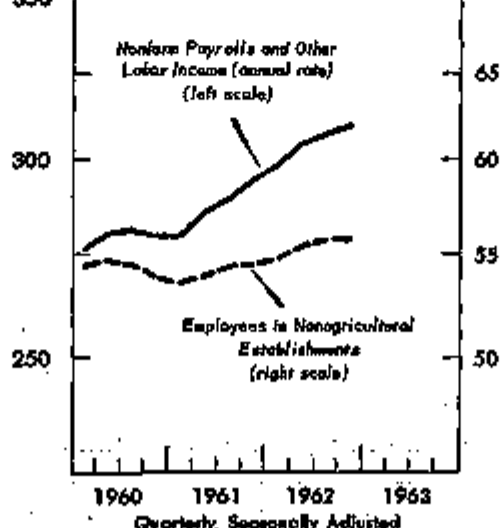
Moved Up Throughout the Year With a
5 1/2 Percent Gain Over 1961

Billion 1962 \$ (ratio scale)



Employment Advanced Relatively Less but
There Was a Large Expansion in Income

Billion \$ (ratio scale) Million Persons



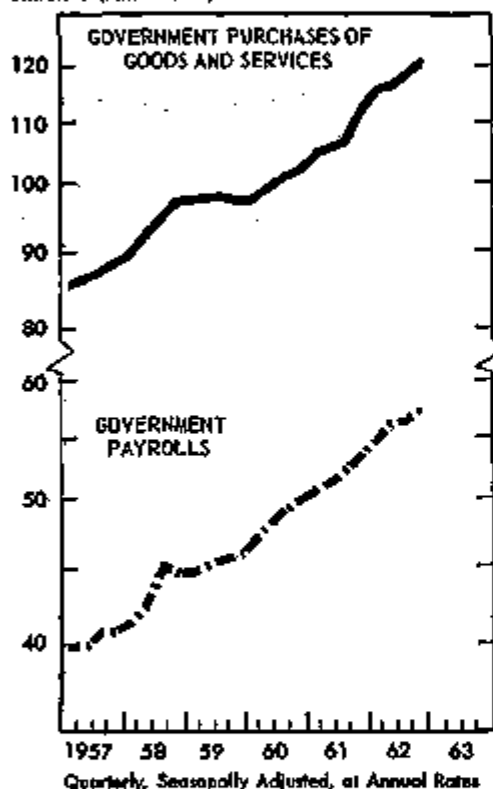
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\$2 billion from \$2½ billion the year before. The favorable balance on goods and services was actually somewhat less than in 1961. Although exports rose to a new high, the increase in imports occasioned by the rise in domestic output was larger than the export rise.

There were a number of factors that served to offset the less favorable trend.

Government Purchases Have Been in Forefront of the 1962 Demand Advances

Billion \$ (ratio scale)



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in the balance on goods and services. These included (1) a smaller outflow than in 1961 in U.S. private capital. While there was some increase in domestic purchases of foreign securities, U.S. direct investments abroad were off somewhat and there was a sharp drop in the outflow of private short-term capital. (2) There were sizable advance repayments on postwar credits and (3) some reduction in net military outlays abroad.

U.S. gold stock declined about \$0.9 billion for the year as a whole, about the same as in 1961 but less than the heavy outflow that occurred in 1960.

Year-end position

At the close of the year the overall demand for the Nation's output continued to move up. On balance the increase was not sufficient to take up all of the slack in the labor force and plant capacity.

The record flow of income was providing the basis for a peak volume of consumption expenditures. December auto sales were good—560,000 units—bringing the total for the fourth quarter to 1,945,000 or roughly 7 million units on a seasonally adjusted annual basis; this was the best sales rate since the final quarter of 1955. Moreover, late in the year consumers were making freer use of credit for autos and other purchases than they had at any time since 1959.

Government purchases of goods and services were on the rise and were expected to move up still further in the months ahead. On the basis of the President's Budget Message in January, Federal expenditures in fiscal 1964 were expected to exceed those of fiscal 1963 largely as a result of rising defense expenditures. Furthermore, outlays by State and local governments were continuing to move ahead in line with their long-term postwar rise.

According to the survey reported in December businessmen were planning to make a small reduction in their plant and equipment expenditures early in 1963, after a 6-quarter rise that leveled off in the second half of 1962. The slow growth of output after the middle of the year, the leveling in aggregate profits and shrinking margins throughout 1962, and the persistence of excess capacity apparently have offset the effects of increasing replacement requirements and the continuing need by business to cut its operating costs through plant modernization.

In this connection a favorable factor is the incentive to investment currently being provided by the investment credit legislation of last September and the liberalized depreciation regulations of last July. The effects of both of these may be expected to be increasingly felt as the year progresses.

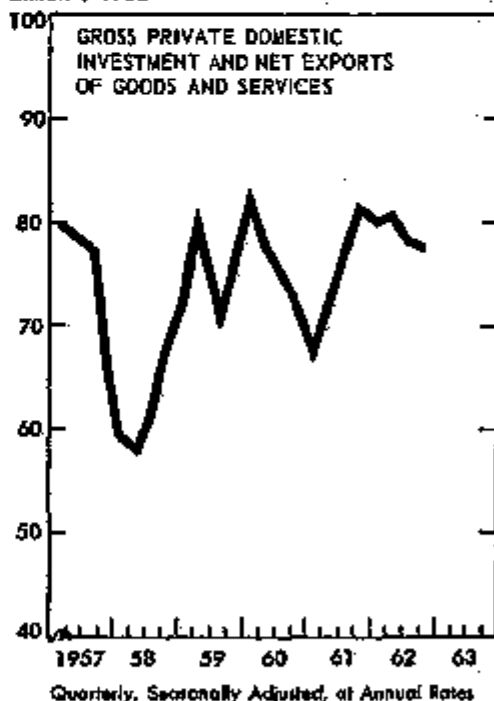
Housing expenditures were showing a somewhat erratic course. They fell

more than seasonally in the fourth quarter, after rising in the spring and summer, but were expected to pick up again this winter, after seasonal adjustment. The expected near-term pickup reflects an improvement in housing starts in October and November, with apartment house construction especially strong. Ample supplies of credit for builders and home purchasers, some reduction in interest rates, the advance in incomes—all against a background of rising family formation—were favorable factors in the current housing picture.

Businessmen continued to be cautious with respect to their inventory policy, even though stocks appeared low by most postwar standards. Manufacturers, for example, held a lower volume

1962 Investment Was Higher Than in 1961 but Moved Downward Due to Reduced Inventory Accumulation

Billion \$ 1962



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of steel than they did the year before, when the steel consumption rate was lower. Retail stocks of autos were quite low as a result of the high rate of sales in the fourth quarter, and could be expected to rise somewhat in the immediate period.

National Income and Product in 1962

Moderate Expansion Follows Initial Cyclical Recovery

Some of the 1962 data on the national accounts presented in this issue are preliminary. The more complete set of tables with revised figures will appear as usual in the February issue of the SURVEY.

FOR the year 1962 gross national product aggregated \$554 billion, as compared with \$519 billion for calendar 1961. The year-to-year increase in real output—about 5½ percent—represented a marked improvement over the gains achieved in the preceding 2 years. It was, however, short of the 8 and 7 percent gains for 1955 and 1959, respectively, when business was recovering from cyclical declines considerably more severe than the 1960-61 recession.

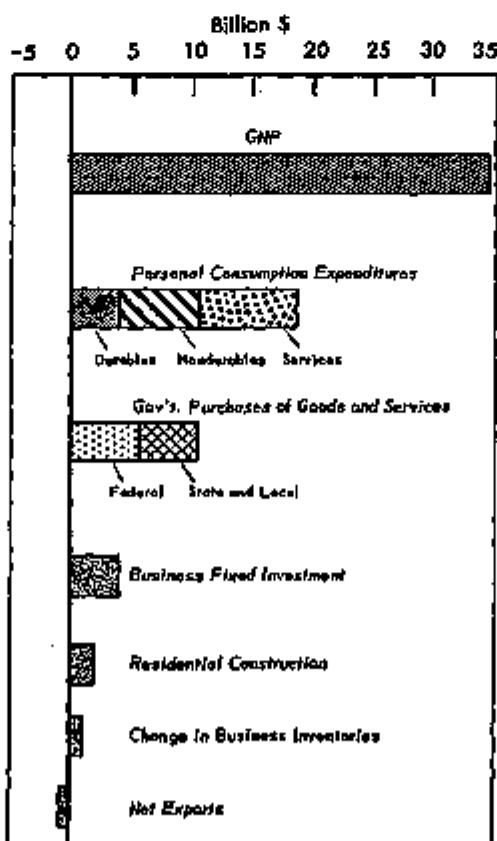
Paralleling the rise in gross national product, national income rose from \$428 billion to a new high of \$458 billion. Corporate profits, reflecting recovery from the cyclically low 1961 figure of \$45½ billion, rose 12 percent to an estimated total of \$51 billion, substantially exceeding the previous high of \$47 billion reported for 1959. Compensation of employees rose by 6½ percent; with the exception of farm income, which was little changed from 1961, other forms of income showed modest improvement in 1962. Personal income was up almost 6 percent for the year as a whole, though the rate of increase slowed considerably during the latter half of 1962.

The GNP trend within the year was upward, but at an irregular pace. The \$7 billion increase for the fourth quarter, at an annual rate, followed a modest rise of \$3 billion in the preceding quarter, and brought the yearend rate to \$562 billion. This was nearly \$25 billion, or 4½ percent, higher than in the final 1961 quarter and over \$60 billion, or 12 percent, higher than in the opening quarter of that year, when general business activity was at a cyclical low

point. As prices have been relatively stable over the past 2 years, most of the recent increases have represented advances in real terms: real output of goods and services in the fourth quarter was 3 percent above a year ago and 10 percent above the first quarter of 1961.

GNP—CHANGES IN MAJOR COMPONENTS, 1961-62

Rise of \$35 Billion in Total Mostly in Consumer and Government Purchases



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Activity through the year—some highlights

The year started off against a background of swift recovery in 1961, which included an unusually large spurt in fourth quarter sales and profits. This favorable experience gave rise to expectations in the early part of 1962 that the advance in the ensuing 12 months might be about as large as the year before. The actual first quarter performance, however, brought lesser gains than the fourth quarter. Housing outlays, which had increased sharply late in 1961, fell, durable goods consumption expenditures changed little, and plant and equipment expenditures rose only slightly. It was during this quarter that inventory accumulation reached its peak, as steel producers, distributors, and steel consumers of all types stockpiled steel in anticipation of a strike at the beginning of the spring quarter.

The second quarter witnessed a sizable advance in final sales as auto and housing expenditures both improved over their winter performance. Production rose less than sales, however. Inventory accumulation was considerably less than in the early part of the year as steel users cut back sharply their purchases of steel with the signing of the steel wage contract in March, causing a sharp reduction in steel output.

It was toward the end of the spring quarter that slowing down in the tempo of the advance became most noticeable. The stock market, which had been declining since the end of 1961, underwent a very sharp reduction at the end

of May and continued to fall through most of June. Most business indicators turned distinctly lower during June as an initial reaction to the uncertainty that followed the market decline. The next few months witnessed a rebound in activity but the gain in final sales was of modest dimensions and was offset in part by a further decline in the rate of inventory accumulation.

The final quarter of the year witnessed a further rise in activity, with GNP registering a somewhat larger advance than in the previous quarter. Of particular significance was the sharp pickup in auto sales. Government outlays were still on the rise. The Cuban crisis, in late October, if anything, had a firming effect on government defense outlays. On the other hand, private investment was not showing much strength—as plant and equipment outlays appeared to have leveled out. The decline in inventory investment seemed to have slowed considerably, with the elimination of the excessive steel stocks that had been built up during the spring, but business inventory policy still remained conservative.

Sharper Rise in Consumer Spending

Consumer spending in 1962 was about in line with the increase in income. Disposable income—income after tax available for spending or saving—was up by \$19 billion, or 5 percent, to \$382½ billion. Virtually all of this additional income was spent by consumers—the total of personal consumption expenditures rose by \$18½ billion to \$358½ billion in 1962, a 5½ percent increase. With consumer prices averaging but about 1 percent higher than in 1961, consumption was 4½ percent higher in real terms. In 1961 the rise had come to about half of this amount.

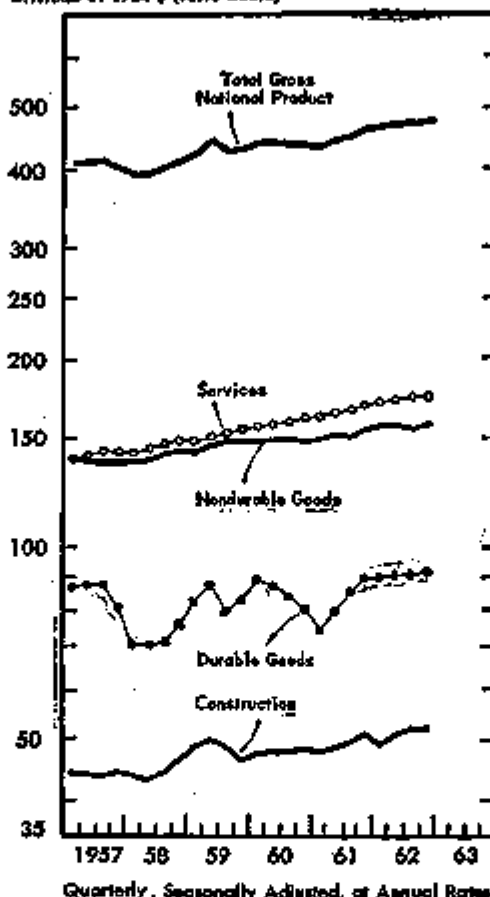
Contributing heavily to 1962's better showing was a \$4 billion increase in consumer spending for durable goods, mainly autos, which in 1961 had declined by over \$1 billion. Spending for nondurable goods rose by \$6½ billion in 1962, about \$3 billion more than the increase in the prior year. Service

expenditures continued their steady postwar expansion with an \$8 billion increase, only a little more than the 1960-61 rise.

PRODUCTION OF ALL TYPES

Was Higher in 1962 Than in 1961 . . .
But Durable Goods Output Leveled
Off Early in the Year

Billions of 1954 \$ (ratio scale)



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Except for some slowing in spending in the third quarter of 1962, associated with inadequate dealer inventories of new cars rather than with a fall-off of demand, consumer purchases expanded at a steady rate throughout the year, and the quarterly increases were in the \$3-\$5 billion range at seasonally adjusted annual rates.

Auto sales: A big year

Automobiles were a standout in the sales picture last year. For the year as a whole, consumers expenditures for new cars and accessories were up by \$3 billion to a \$20 billion total. Sales improved considerably in the closing

quarter of 1961 with the introduction of the 1962 models, and the high rate of sales was maintained with some quarterly variation during the remainder of the 1962 model run, which extended through August of 1962. There was a perceptible pickup in sales volume when the 1963 models appeared in quantity at dealers' show rooms late in September, and fourth quarter sales rose to new highs although the trend within the quarter was slightly downward.

About 6.8 million domestically produced cars were sold in 1962, over 20 percent above the 5.6 million sold in the prior year. Forty percent of the cars sold last year represented compacts or intermediates, compared with 36 percent in 1961. As the year closed, dealers' new car inventories amounted to slightly over 800,000 cars, about the same as at the end of 1961, but sales were running about 10 percent above 1961 yearend levels.

Expenditures for furniture and household appliances also moved up in 1962, but the year-to-year gain was small—3 percent—as compared with other expenditure categories. More impressive were the facts that by yearend the gain from the first quarter of 1961 had cumulated to 11 percent, and that, after a poor showing in the first half, outlays in this area rose sharply in the third and fourth quarters of 1962.

Nondurable expenditures up with consumer incomes

Consumer outlays for nondurable goods continued to parallel the rising trend in consumer incomes as they normally do. Expenditures were up 4½ percent for the year as a whole, with little divergence among the individual categories. The rate of increase was particularly high in the first quarter of the year and, apparently, rather low in the fourth quarter when automobile sales were proceeding at a very high rate.

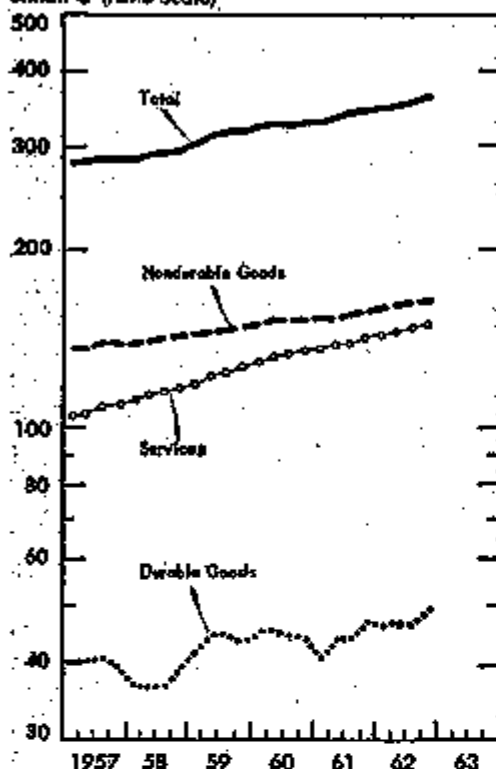
Investment Trends

For the year as a whole, gross private domestic investment at \$76 billion was 10 percent higher than in 1961. Despite the fact that on a year-to-year comparison, investment outpaced total out-

PERSONAL CONSUMPTION EXPENDITURES

- All Major Groups Rose in 1962 Over 1961
- Durables, Due to Autos, Show Largest Relative Increase

Billion \$ (ratio scale)



Quarterly, Seasonally Adjusted, at Annual Rates
U.S. Department of Commerce, Office of Business Economics

put, it nonetheless accounted for less than 14 percent of the total in 1962 as compared with 15 percent in 1959 and over 16 percent in 1955. Moreover, all of the 1961-62 rise in investment expenditures was achieved by the end of 1961. In only one quarter of last year (the second) did investment exceed that of the closing quarter of 1961, and then by only a small margin.

Inventory picture mixed

Although business investment in inventories in 1962 did not differ much from 1961, the quarterly movement last year was almost the reverse of the 1961 pattern. The first quarter of 1961 was one of fairly heavy liquidation of stocks and their subsequent rebuilding was a powerful stimulus to expansion in overall output during the balance of the year. In 1962, on the other hand, over half the total accumulation occurred in the opening quarter. In subsequent quarters, business progressively reduced its rate of accumulation until by the yearend little or no net stock building

was going on. Thus from the first quarter of 1961 to the same quarter of 1962, changes in inventory investment added \$10 billion to the rise in overall output, but in the ensuing three quarters lower inventory investment cut output by almost \$8 billion at an annual rate.

The threat of a steel strike exerted an important effect upon the inventory movement during the year. In the first quarter, durable goods manufacturers sharply increased their inventory building to a rate unequalled since the quarter following the settlement of the 1959 steel strike. This more than offset a shift from accumulation to liquidation in retail trade outlets.

In the second quarter, durable goods manufacturers greatly reduced their rate of accumulation, more than enough to offset modest increases elsewhere in the economy. The continued decline in the rate of inventory accumulation during the rest of the year was more general in character. By the year's end, inventories were generally low relative to the volume of activity, particularly in the durable goods industries.

Rise in business fixed investment slows

Business expenditures for fixed investment during 1962 were 9 percent higher than in the preceding year. Most of

the increase was in the equipment area, as nonresidential construction activity was little affected by the short 1960-61 cyclical decline and there was little of the recovery element in the minor increases recently shown in this field. Overall, the rate of increase was highest in late 1961 and early 1962. The fourth quarter of 1962 was little changed from the third quarter and the OBE-SEC survey of capital expenditures pointed to a decline for the opening 1963 quarter.

Business outlays for new plant and equipment continue to lag in the growth of the economy. At 9 percent of total GNP, there has been no relative improvement since 1958, when activity was depressed during much of the year, and the ratio is well below that of nearly 11 percent recorded in 1956 and 1957. While outlays in the industrial, transportation, and public utility fields continue to run below their high points of the middle or late 1950's, activity in the commercial and service areas continues to grow. Outlays in this latter area, which represented only one-third of all fixed business outlays in early 1961, have accounted for nearly two-thirds of the total increase since that time. The higher rate of growth in this area obviously reflects to some degree the growing importance of services in the economy.

Table 1.—Key Income and Product Data, 1960-62

(Billions of dollars)

	1960	1961	1962 ¹	1961 IV	1962—Seasonally adjusted at annual rates			
					I	II	III	IV ²
Gross national product.....	503.4	518.7	553.6	536.5	544.6	552.0	554.3	562.0
Personal consumption expenditures.....	323.5	333.1	356.7	346.1	350.2	354.9	359.2	363.5
Autos and parts.....	13.3	17.2	20.3	19.4	19.1	20.3	19.3	21.5
All other.....	309.7	320.9	336.7	326.7	331.1	334.6	339.9	342.0
Gross private domestic investment.....	72.4	69.8	78.2	79.0	73.0	77.4	76.3	75.0
Residential construction.....	31.1	21.0	23.1	22.8	31.2	29.3	24.3	25.7
Business fixed investment.....	47.8	48.0	55.0	56.2	41.8	48.1	51.9	49.3
Change in business inventories.....	-1.1	2.1	3.1	0.0	0.7	0.0	2.0	.5
Net exports of goods and services.....	2.9	4.0	3.1	3.5	3.7	3.7	2.5	2.5
Government purchases.....	49.7	107.4	117.6	112.1	115.2	116.0	115.2	121.0
Federal only.....	43.2	37.0	62.6	59.5	61.9	62.1	62.7	68.7
Gross national product in constant (1962) dollars.....	515.9	535.6	569.6	544.7	544.6	552.0	554.2	560.1
National income ³	435.5	427.6	467.5	446.6	448.2	456.7	460.8	N.A.
Compensation of employees.....	253.7	262.2	281.6	266.9	269.9	271.7	273.3	275.6
Corporate profits ⁴	45.6	45.5	51.0	51.1	50.4	50.1	51.0	N.A.
All other ⁵	76.2	59.1	34.9	38.0	38.3	34.8	36.5	35.8
Disposable personal income ⁶	349.4	363.8	382.7	372.5	375.6	381.8	384.1	388.3
Disposable income in constant (1962) dollars ⁷	365.6	367.2	382.7	375.0	377.5	382.5	383.7	387.8

1. The figures for 1962 and its fourth quarter are based on incomplete data. Final figures in the usual amount of detail will be published in the February SURVEY.

2. Not adjusted in 1962 for effects of new depreciation guidelines and rules. Tentative estimate of the additional depreciation that may be charged on this account is \$2.5 billion. This will reduce national income in 1962 by \$2.5 billion; corporate profits by \$2.2 billion and proprietors' income by \$0.3 billion. Disposable personal income would be lowered by \$0.2 billion. The seasonally adjusted quarterly figures at annual rates for 1962 would be reduced by similar amounts.

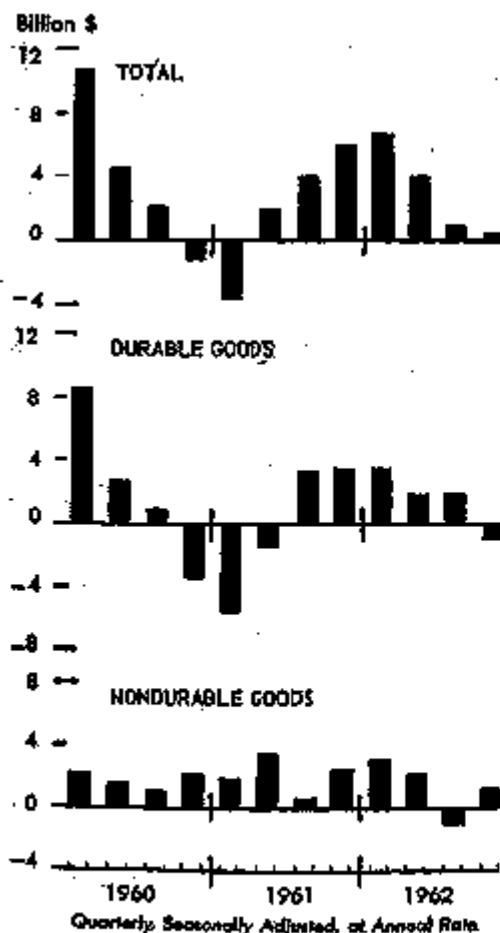
New incentives to investment

The low volume of fixed business investment in the past few years reflects in part the existence of substantial excess capacity in many industries, and the adverse effect on profit margins of the fixed charges associated with such unutilized capacity. During the year the Federal Government took steps to stimulate new investment through new regulations and legislation.

In mid-1962 the Treasury issued revised guidelines for depreciation. The effect of this measure was to allow business to depreciate equipment at a faster rate, thus decreasing tax liabilities and increasing business cash flow. Tentative estimates by the Treasury indicate a reduced tax liability for businesses of about \$1 billion on this account. In addition to this measure, an investment incentive tax credit program was approved later in the year.

INVENTORY INVESTMENT (GNP Basis)

- Deducted From Yearend Balge
- Durable Goods Account for Most of Shifts



The tax saving resulting from this program is also tentatively estimated at \$1 billion for 1962. Since both of these measures were promulgated in the last half of the year, their effect on investment during the year just closed could not have been important, but it is believed that 1963 investment will respond favorably.

Housing activity fluctuates at high point

The value of new residential construction put in place advanced from \$21 billion in 1961 to a new high of \$23 billion for 1962. After allowance for a moderate price advance in recent years, the 1962 output about matched that of 1959, the previous high year. Following a poor first quarter, attributable in part to unfavorable weather in parts of the country, activity advanced sharply in the second quarter, moderately in the third—a high, for the year of more than \$24 billion. On the basis of incomplete data, a minor decline is indicated for the fourth quarter.

Last year's rise in housing expenditures reflected a continuation of the very erratic rise in housing starts that began in 1961. In that year, seasonally adjusted starts had climbed irregularly until the autumn but declined markedly for several months thereafter, probably as a result of severe winter weather. Last spring saw a recovery to a very high rate of starts, with April and May averaging in excess of 1.5 million units, at a seasonally adjusted annual rate. The trend was generally downward until September and was reflected in a minor decline in the GNP residential construction component in the fourth quarter. With starts up again in October and November, at approximately the May peak in the latter month, a high level of activity seems assured for early 1963.

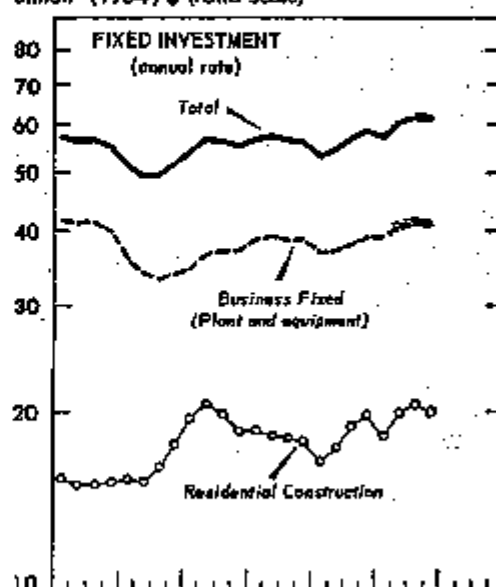
For the year as a whole, private non-farm starts totaled 1.4 million units, 11 percent higher than 1961. Most of this increase was in the apartment house component, which rose to a new high of more than 400,000 units. Single family dwellings were little changed at 1 million units, as compared with a high of 1¼ million in 1959.

Applications for FHA and VA fi-

DOMESTIC FIXED INVESTMENT

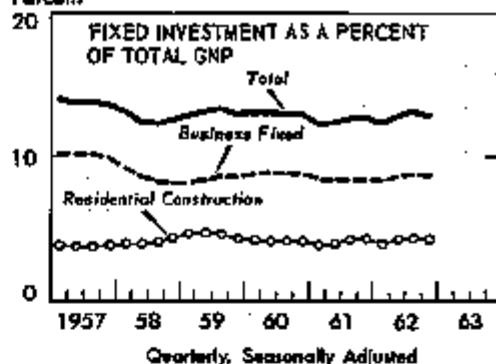
Plant and Equipment Outlays and Residential Construction Moved Up in 1962

Billions (1954) \$ (ratio scale)



Total Still Accounts for a Smaller Share of Output Than in 1957

Percent



nancing have trended slightly downward during the year. With private mortgage money abundant and somewhat cheaper, the comparative advantage of the government-sponsored programs has diminished somewhat in recent months.

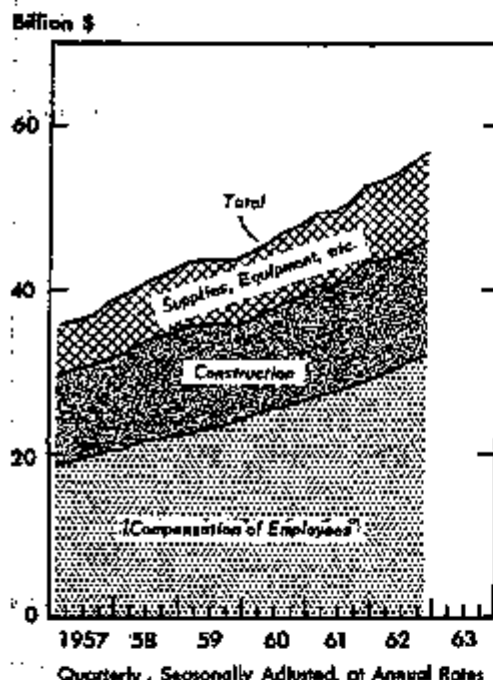
Government Purchases Continue Rise

To an important extent the continued rise in GNP from the beginning of 1962 to date has been dependent on the steady rise in government purchases of goods and services. For the year as a whole these expenditures, at \$117½ billion, were \$10 billion higher than in 1961, with the increase about equally

divided between Federal outlays, on the one hand, and State and local, on the other. In 1961, government outlays rose \$8 billion over the previous year.

The crucial role of government is seen most clearly by reference to the GNP advance since the low point in activity in the first quarter of 1961. From that period to the fourth quarter of 1961, GNP rose by \$38 billion while government purchases were up by \$7.3 billion—contributing almost 20 percent to the overall advance. From the fourth quarter of 1961 to the closing quarter of last year, GNP was up by

**STATE AND LOCAL GOVERNMENT
PURCHASES OF GOODS AND SERVICES**
Trend Continues Steadily Upward



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\$23 billion while government increased by almost \$9 billion—accounting for almost 40 percent of the total rise. Over the entire seven-quarter span, government has thus accounted for better than one-fourth of the GNP rise, a proportion that has been exceeded in postwar recoveries only in the Korean mobilization period about a decade ago.

Federal purchases of goods and services increased by \$5½ billion with \$4½ billion of the increase accounted for by increased outlays for national defense. Within this category, expenditures for space rose to \$2 billion, doubling the

previous year's total. Department of Defense purchases of hard goods, and supplies and materials increased approximately \$3 billion, while military payrolls were up nearly \$1 billion. Other defense programs showed little change.

Federal purchases other than defense were \$1 billion higher in 1962 than in 1961. This increase is largely accounted for by an increase in the Federal Government payrolls, reflecting both an increased number of employees and the general wage rate increase which became effective late in 1962.

Total Federal Government expenditures on the National Income Accounts basis advanced by \$7½ billion in 1962. This was a somewhat smaller rise than took place the year before mainly because of the lesser increase in transfer payments.

Federal Government receipts increased even more than expenditures, resulting in a decline in the Federal deficit on a National Income and Product basis as compared with 1961. Under the revised depreciation guidelines and the Revenue Act of 1962, the revenue losses to the Treasury may reduce or eliminate this indicated decline in the Federal deficit, when the corporate tax returns for 1962 are incorporated into the accounts.

The growth in State and local purchases continued in 1962; the \$4½ billion rise indicated for last year compares with \$4 billion in 1961 and only \$3 billion in 1960. As in the case of the Federal Government, the increase was largest in the latter half of the year. A particularly sharp increase in the fourth quarter was concentrated in highway expenditures, and may have resulted from the fact that winter weather was late in coming to many parts of the country.

National Income Higher

Quarter-to-quarter changes in income paralleled those in GNP, but individual components of national income traced diverse patterns. Corporate profits, which had risen \$11 billion during the 1961 recovery period, dipped slightly in the first quarter of 1962. Although corporate output rose steadily through-

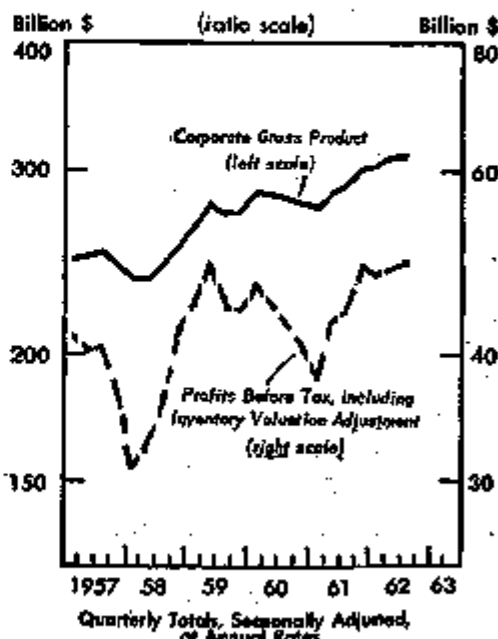
out the year, falling margins prevented total corporate earnings from showing much improvement, and at yearend, profits were only a little higher than in the final quarter of 1961. Thus, the share returned to capital in the form of profits continued the downward drift relative to corporate output that has been evident over the past decade.

In contrast to the changes in corporate profits, compensation of employees expanded in each quarter of 1962, although the quarterly rate of increase in the latter part of the year was less than half that prevailing in the first part.

By industry, the largest income gains for the year 1962 were achieved in manufacturing, particularly the durable goods industries. In large part, these increases reflected recovery from the cyclical low of the previous year, and actually accrued during the last three quarters of that year. As measured by payroll changes also, developments subsequent to the initial recovery period were disappointing. At yearend, factory payrolls at a \$94 billion annual rate were only slightly higher than the \$91½ billion rate of a year earlier. Most of this moderate rise was accomplished

CORPORATE GROSS PRODUCT AND PROFITS

- Output Rose Steadily in 1961-62 Period
- Profits Recovered Rapidly From the 1961 Cyclical Low and Levelled Off in 1962
- Ratio to GNP Lower Than in Earlier Peak Years



U.S. Department of Commerce, Office of Business Economics

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in the early months of 1962, and manufacturing payrolls in December were no larger than in April, after allowance for seasonal factors.

National income advanced significantly last year in government and in

the trade and service industries. In these industries, annual gains were spread throughout the year, and represented a continuation of long-term trends rather than recovery from a cyclical low.

there was no noteworthy extension of maturities, lowering of down payments, or any substantial rise in the proportion bought on credit.

The volume of installment credit extended for auto purchases in the summer and fall months reached levels moderately in excess of the totals recorded in the record auto sales year, 1955, with car prices averaging higher than 7 years earlier. There was also some pickup in the rate at which installment loans were extended on nonauto durables and personal loans also picked up moderately, while the growth in noninstallment credit continued apace.

Financial Markets in 1962

A Picture of General Ease

LAST year's increases in business investment, housing, and consumer durable outlays occasioned an increase in private borrowing, while the Government's borrowing was unchanged, and total debt formation increased moderately over the cyclical swing year of 1961. The monetary authorities provided sufficient reserves to the banking system to accommodate the expansion in credit demand with little pressure on interest rates.

Last year's experience differed from that of earlier postwar years of cyclical expansion: the rise in fixed investment was weak as was the preceding decline; inventories were not built up so fast; no pressure was apparent on bank reserve positions until almost the close of the year; and interest rates moved downward or fluctuated narrowly, rather than rising.

Business investment up \$4 billion

Business fixed investment during 1962 rose 9 percent—or \$4 billion above the previous year—continuing the cyclical rise which followed the small decline in 1960. Inventory buying reached a peak in the first quarter. Subsequently, additions to stocks were smaller, contributing to the economy's slower growth. For the year as a whole, inventory investment totaled \$3 billion.

The improvement in business activity was reflected in a \$3½ billion increase in internal funds over 1961. The bulk of this rise had occurred by early 1962, as profits did not expand after the second quarter.

The revisions in depreciation accounting and the new investment tax credit are not reflected in the statistics of corporate depreciation and undistributed profits presented in this issue of the SURVEY but any provision for these would increase the total of corporate funds available from internal sources. (See discussion on page 7.)

Internal funds, as currently measured, were up by an amount roughly similar to that of fixed business investment outlays. Apart from the \$2½ billion advance in short-term business bank loans, corporate need to resort to external credit markets was less than in 1961. Bond issues were unchanged from 1961, while stock issues were lower than in the previous year, and a continued rise in the rate of corporate mortgage borrowing did not make up the difference. Corporate holdings of liquid assets changed little during the year.

The sharp fall in corporate stock issues clearly reflected the break in stock prices in the spring months, which heightened uncertainties in financial markets and raised questions about its implications as to business trends. In particular, the flow of new stock issues was reduced in the last half of the year and net sales of mutual fund shares also declined.

Installment credit up

The sharp increase in auto sales for 1962 entailed a large rise in auto credit. The increase in borrowing was roughly proportional to the rise in purchases as

Housing credit freely available

Housing—traditionally the residual claimant upon available capital supplies—moved up last year, reflecting in part an increase in the attractiveness of mortgages to lenders as credit supplies expanded faster than demands. The expansion in credit availability also gave rise to higher loan-value ratios, lower interest rates, and some increase in the volume of loans on older properties.

There was little change in the rate at which loans were made on new medium-price single-family houses. The increase in fund availability was particularly effective in stimulating the construction of luxury apartments and more expensive single-family houses.

Federal Government

The Federal Government was a major borrower in the money and capital markets last year, although the Federal deficit on income and product account narrowed from \$4 billion in calendar 1961 to under \$2 billion. Toward the yearend, this deficit was rising.

Although the Government's net draft was reduced, the rate of borrowing at \$6 billion—excluding a special subscription to the IMF—was little changed from the 1961 total as the Treasury tried to put pressure on short-term interest rates by issuing more bills than were needed to finance operations, and using the proceeds to build up the Treasury's cash balances. In addition to expanded offerings of short-term securities, Treasury financing last year featured advance refunding of medium-

term securities into longer term. Reflecting these policies, as well as some runup of outstanding medium-term issues, the volume of securities due in 1 to 5 years declined \$5 billion, while bonds due in more than 5 years were up \$9 billion, and securities due within 1 year rose \$3 billion. Savings bonds and special issues showed little change.

Bank reserves easy

The banking systems' reserve position was easy throughout the year, and under these circumstances the moderate calls for credit accommodation were easily handled. The monetary authorities maintained net free reserves at about a \$400 million level through November, permitting a fall to \$300 million for December. Such reserves were maintained at considerably higher levels than had been usual in earlier postwar advances, and the banks added record amounts to their loans, investments, and deposit liabilities.

The total of bank loans and investments increased about \$18 billion during 1962—the largest such increase during a peacetime period. This rise was financed by a \$15½ billion rise in time deposits, a \$1 billion increase in demand deposits, and \$1 billion of earnings retained by the banks.

The banks used the expanded credit-creating power to extend the volume of lending in all categories of loans and investments other than U.S. Government securities, where they wound up the year with an amount slightly less than they had going into 1962. As noted earlier, business loan demand was moderate last year, and such loans increased only \$3 billion. Banks stepped up their purchases of State and local securities—at \$5 billion such investments were at the highest rate in history.

Real estate loans—up \$4 billion—also provided a major outlet for bank lending as did the \$2 billion expansion in consumer credit. This experience was, in marked contrast with other periods of economic expansion, when business and consumer loans had ex-

panded sharply, U.S. Government securities were sold off in substantial volume, and little net lending was reported to State and local governments and on real estate.

Other financial institutions step up lending

The supply of loan funds was further augmented by a continued rise in the inflow of savings to nonbank financial institutions. The growth of saving and loan deposits was about \$9½ billion, \$1

billion more than the previous record in 1961. Mutual savings banks and life insurance companies also reported record increases in the volume of personal savings entrusted to them. All these institutions invested a somewhat greater portion of their funds in mortgages, and maintained their holding of U.S. Government securities.

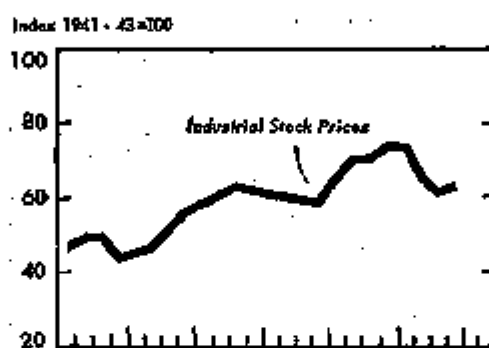
Interest rates and security prices

The expanded supply of credit, in conjunction with the relatively small increase in the demands for financing was reflected in a moderate decline in most interest rates last year. Short-term interest rates generally fluctuated narrowly around the level reached early in the year, while long-term bond rates drifted downward.

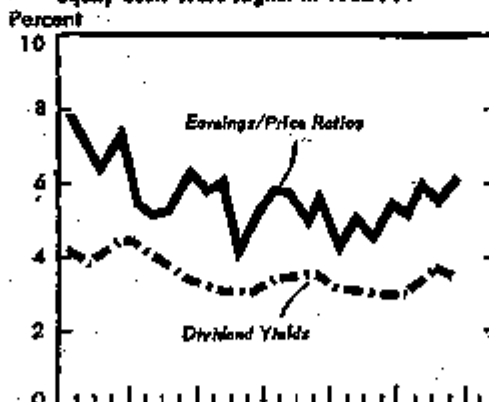
The contrast between the downward drift in long-term interest rates and the narrow fluctuations in short-term rates reflected in part the stability of long-term debt offerings in the face of rising bank and institutional fund sources, and in part deliberate Government policy. The latter was effected by confining Treasury cash issues to the shorter term of the maturity spectrum, and was undertaken to help American liquidity instruments remain competitive with those available in major foreign money markets without inhibiting domestic expansion through higher long-term rates.

During the first 4 months of the year, stock prices drifted downward from the alltime highs reached near the turn of the year. In May, and in June, prices tumbled sharply on a rising volume of trading and the drop in values was the greatest since 1938. Later in the summer, stock prices stabilized, and then moved up modestly. With the coming of the fall months, stock prices eased off until October. Since the resolution of the immediate Cuban confrontation, the 2 closing months of the year have been marked by a sharp resurgence in stock prices which carried the market averages slightly more than half way back from the lows reached in June to the alltime highs scored in December 1961.

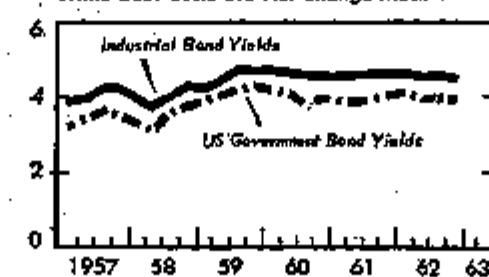
FINANCING COSTS CHANGES
With Stock Prices Down From Peak



Equity Costs Were Higher in 1962...



While Debt Costs Did Not Change Much



(Data: Standard & Poor's, Moody's, & Treas.)

Industrial Production—Employment—Prices

INDUSTRIAL production extended the cyclical advance which began early in 1961, and for 1962 as a whole registered a 9 percent increase over the year before. Within the year output continued to rise until about midsummer but remained on a plateau thereafter. At yearend, the Federal Reserve seasonally adjusted production index was 3½ percent ahead of a year earlier, and 7 percent above the prerecession peak of January 1960.

New production peaks were reached in 1962 by all of the four broad industry groups—durables, nondurables, mining, and utilities; durable goods output topped 1961 by 10 percent and soft goods by 6 percent. The increase in mining activity was less than 3 percent while utilities output expanded 7 percent, about equal to the average gain of the past 5 years.

Better than average gains in 1962 were made by the auto industry, which experienced its second best production and sales year, and by industries producing machinery and equipment and defense goods; these reached consistently higher production rates during the course of the year. These two manufacturing groups, with less than 30 percent of the weight of the FRB index, accounted for 40 percent of the rise in total industrial output. By way of contrast, output of the steel industry, which was high very early in the year, fell sharply in the second quarter, and for the year as a whole averaged no higher than 1961.

The current expansion in industrial output, now extending over a period of 28 months and aggregating 16 percent over this period, conforms closely in magnitude with the recovery from the 1954 cyclical trough; however, it is well behind the advances of 25 percent experienced in the comparable periods of the 1949 and 1953 upturns. The declines preceding those recoveries were much greater. It took industrial production five quarters in the 1961-62 recovery to exceed the former peak or

somewhat less than in the other cyclical upswings.

Backlogs decline

The rise in unfilled orders that developed during 1961 came to a halt last year. In the early months of 1962 the flow of incoming new business outpaced the rise in manufacturing output and backlogs rose. The increase was particularly large in primary metals, but also occurred in both electrical and nonelectrical machinery and in fabricated metal products.

New orders receipts fell in the second quarter of 1962 and improved only slightly in the second half. With output continuing high, backlogs tended downward during the final three quarters of 1962, and at yearend were about 3 percent lower than at the beginning of the year. The slippage, moreover, was also widespread among the major industry groups—and, except for nonelectrical machinery, backlogs at yearend were generally lower than in December 1961.

Autos: A year of growth

Auto assembly plants shipped out nearly 8.2 million passenger cars and trucks in 1962, over 1½ million more than in 1961 and about 1 million under the banner year of 1955. Passenger cars accounted for 6.9 million of total output.

Aside from the normal summer slowdown for model changeovers, total assemblies were maintained at a high rate, with output in most months approximating or exceeding 700,000 units. In the October-December period alone, when dealers' sales were especially brisk and inventories of new cars in showrooms remained relatively low, over 2.4 million passenger cars and trucks rolled off the assembly lines. This was the best fourth quarter on record, a production performance not too far from the peak April-June period of 1955, when 2.5 million units were turned out.

Sharp swing in steel output

During 1961, the steel industry experienced a sharp rise in output as the economy and demand for durable goods recovered from the 1960-61 recession. The seasonally adjusted index of production of iron and steel by November 1961 was two-fifths above the trough of a year earlier.

Around the end of that year a new factor was superimposed on the growing requirements for steel consumption, namely, a demand for additional inventories as a hedge against a possible steel strike. New orders rose to an extremely high rate in the winter and iron and steel output jumped by 14 percent from November 1961 to March of 1962.

When it became clear that a strike would not materialize, orders were cut back, and with the signing of a new labor-management wage contract late in March, production began to fall sharply with consuming industries drawing down their expanded inventories. Output reached a low in July, one-fourth

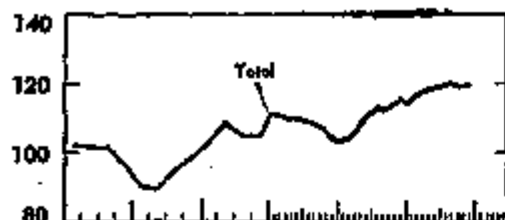
Table 1.—New Orders Received by Steel Companies, Receipts, Consumption, and Stocks of Steel Mill Shapes, and Iron and Steel Output

[Monthly average]						
	New orders (\$Bil.)	Steel consuming (manufacturing)				Production (1962-23-1960)
		Receipts	Consumption	Stocks, end of period	Stock-consumption ratio	
1961						
November-December...	1.71	4.20	4.20	9.40	2.2	107.3
1962						
January-March.....	1.53	5.20	4.88	13.00	2.8	118.4
April-June.....	.89	4.43	4.48	11.40	2.6	99.5
July-September.....	1.15	3.70	4.20	9.00	2.4	98.4
October-November.....	1.23	4.85	4.55	9.05	2.0	92.3

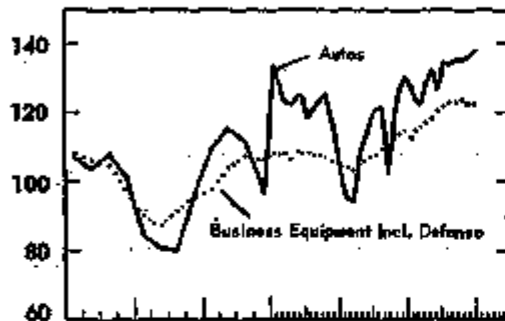
Note.—Data are not adjusted for seasonal variation, except for new orders, and iron and steel production.

Source: U.S. Department of Commerce, Office of Business Economics and Bureau of the Census; Board of Governors of the Federal Reserve System.

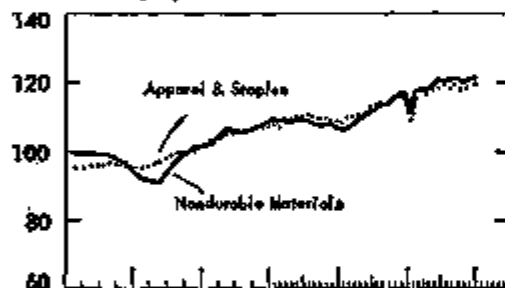
INDUSTRIAL PRODUCTION ROSE IN 1962
 Levelled Off After Midyear
 1957-59 = 100



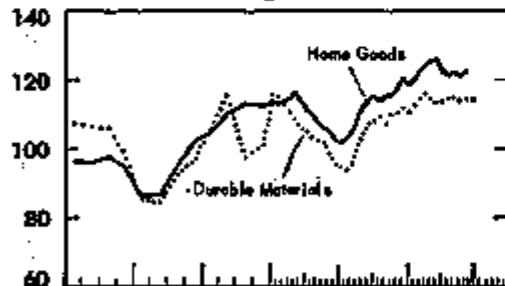
Autos and Investment Goods at New Peaks



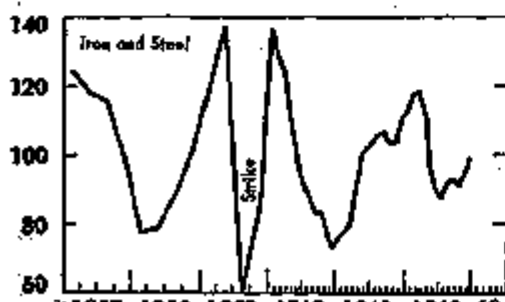
Soft Goods and Materials Have Tended Slowly Upward



Consumer Home Goods and Durable Materials Off From Earlier High



Steel Shows Small Recovery After Sharp Decline From March High



Quarterly Seasonally Adjusted, Monthly

Source: FRB

below the spring high. Some recovery in production followed, but in December the rate of operations was still one-seventh below the high first quarter.

With December operations yielding an output of 8.1 million ingot tons, the highest monthly volume since April, steel production for the year as a whole came to 98 million tons, about the same as in 1961. This production was the equivalent of about 61 percent of mid-year capacity, as compared with a 64 percent rate on a somewhat lower base for 1961. The uptrend in steel mill activity since midsummer reflected for the most part renewed buying by steel users as the gradual liquidation in steel inventories by consumers, underway since April, drew to a close. The improvement in mill operations extended into early January.

In contrast to the sharp swing in steel ingot production, consumption of finished steel by manufacturing establishments—which accounts for roughly three-fourths of all steel used—tended generally upward during the year. For 1962 as a whole, consumption was well above 1961 and compared favorably with the high consumption years of 1955-57.

Table 1 makes clear the extent to which 1962 steel consumption came out of inventories built up through the first quarter. From May through November steel consumption by steel-using manufacturers exceeded receipts from mills by 2½ million tons. In addition, there was a further liquidation of 1 million tons held by producing mills and 300,000 tons held by steel warehouses.

The reduction in steel stocks brought the November carryover well below that held at the beginning of the year, when the particularly heavy inventory buildup was well underway. The better-balanced steel inventory position is further indicated by the current relatively low stock-consumption ratio compared with the year earlier figure and the high ratio at the end of March.

Most nonferrous metals supplies expanded sharply in 1962 as a result of higher domestic production and increased imports. More aluminum and copper were produced than ever before, a moderate increase was posted for zinc, and a decline for lead.

The aluminum industry in producing

2.1 million tons—some 200,000 tons above 1961 and 100,000 tons higher than in 1960, the previous top—operated at an average rate of 85 percent of installed capacity, ending the year at a higher operating rate. Copper producers operated at a record rate through June but as inventories began to build up, output was cut back moderately in the second half.

Although consumption was sustained at a high rate, inventories of copper at yearend were higher than at the beginning of the year. In the case of aluminum, stocks at reduction plants declined through most of the year but expanded in the closing quarter as output continued high while demand slackened somewhat.

Output of materials other than metals generally showed widespread gains over the year. Production increases of 7 percent or more were registered for such important basic materials as paper and board, plastics and resin materials, industrial chemicals, synthetic rubber, and man-made fibers, while more moderate gains, less than 5 percent, were shown for cement, flat glass, coal, and crude petroleum. Bituminous coal output was the largest since 1957, because of higher domestic consumption and a substantial expansion in shipments to foreign markets.

Business equipment higher

Reflecting higher capital outlays for machinery and equipment and stepped-up military procurement programs, production of producers' durable equipment and defense hard goods rose throughout the year, recording a gain of 11 percent over 1961. This important segment of manufacturing has shown consistent quarter-to-quarter gains since about the time the cyclical advance started, though the rate of increase in the last half of 1962 was less than in the earlier phase of the expansion, as is usual in cyclical upturns. The rise in business investment leveled out around the end of the year, though defense goods were still pushing higher. The December index of business equipment and defense goods, at 123 (1957-59=100), was 7 percent above December 1961, and 1 percent above July 1962.

Production of commercial equipment, which has experienced a strong secular

uptrend in the postwar period, recorded an advance of one-eighth from 1961 to 1962. Sizeable increases were also registered for industrial machinery, freight and passenger equipment—largely the result of an increased volume of truck production—and farm machinery. Within the year, output for these product groups moved closely with the overall business equipment index.

Nondurables output follows total index

In general, nondurables goods were in steady demand, and at year-end output was about 3 percent above December 1961. Production was higher than in 1961 for all of the major industry groups and new peaks were reached by all industries, except leather products. Chemicals and rubber products increased 10 percent or more over

1961, the largest among the nondurable goods group; in other soft goods lines, the advances ranged from 2 percent for foods and beverages to 7 percent for paper products.

In the cyclical textile industry, output surpassed its previous high in February, advanced further to a new peak in the summer months, and then edged downward. The lower rate of output in recent months was associated with a drop in orders, rising inventories, and some price weakness.

Production of apparel products traced a somewhat different pattern. After a rather slow start in the early part of the year, output improved moderately in the spring months and continued to advance thereafter. The current rate, a new top, was some 5 percent above a year earlier and 8 percent above January 1962.

Labor Market Developments

AS the economy pushed upward in 1962, there was a marked advance in employment, a rather small rise in the total labor force, and some reduction in unemployment as compared with 1961. Total employment in 1962 averaged 87½ million, up 1 million from 1961. The Armed Forces also showed a fairly large expansion for the first time since the Korean mobilization period.

The rise in seasonally adjusted employment in the early months of the year was largest in durable goods manufacturing and retail trade, but gains were also made in other manufacturing, services, construction, and State and local government. Small increases occurred in other sectors. Around mid-year employment leveled off, and on a seasonally adjusted basis, showed little change during the latter part of the year. Of the industry groups which had shown expansion early in 1962, only the service industries and State and local governments showed any considerable advance. In manufacturing, employment declined over 200,000. Seasonally adjusted employment in most of the other groups declined slightly after midyear.

Extension of cyclical rise

The broad rise in employment in the first half of 1962 represented a continuation of a cyclical advance from the low point that had been reached in the first quarter of 1961. From that date to the third quarter 1962 nonagricultural employment expanded 2 million, seasonally adjusted, with about half the rise occurring in 1961 and the remainder in early 1962.

Increases were large in manufacturing, chiefly durable goods, and in government; sizable increases also occurred in trade and service industries. Other goods production and transportation industries showed little change during this period of general cyclical advance.

Comparison with previous peak

A second comparison of the third quarter 1962 employment—with the peak employment of the preceding business cycle, second quarter 1960—shows a somewhat different picture, focusing more on growth than on cyclical change. As shown in the accompanying table the rise in nonagricultural employment from second quarter 1960 to third quarter 1962 was nearly 1 million, or less than 2 percent. During this period the employment increase was centered in services and

government (mainly State and local), with these two groups showing an advance of over 1 million, or more than the rise in total nonagricultural employment. Smaller advances occurred in trade and finance groups, the two together accounting for an increase of 300,000. All of the other major groups—mainly the commodity-producing industries—registered some decline, even though output in these industries registered an advance.

In manufacturing, for example, there was a small decline in employment—about 140,000 or less than 1 percent—from the previous cyclical peak in the second quarter of 1960 to the third quarter 1962. By way of contrast manufacturing output increased 9 percent over the same period. Since there was only a small increase in hours there is a substantial gain suggested in output per manhour.

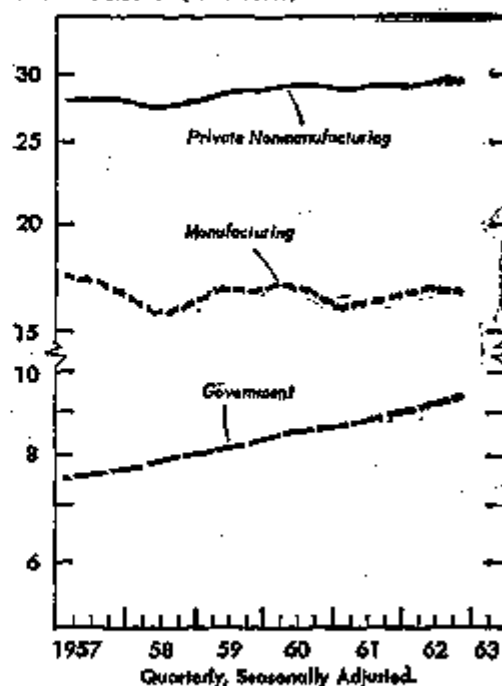
Workweek extended

In manufacturing, the average hours worked per week was greater in 1962 than in either of the two preceding years. For the durable goods industries, the workweek averaged nearly

EMPLOYEES IN NONFARM ESTABLISHMENTS

- Government Employment Rose Steadily in 1962
- Nonmanufacturing Rose Until Fall Period
- Manufacturing Levelled Out Earlier

Million Persons (ratio scale)



Source: BLS
U.S. Department of Commerce, Office of Business Economics 63-1-15

Table 2.—Employees in Nonagricultural Establishments

(Thousands of persons, seasonally adjusted)

	Total	Manu- factur- ing	Dur- able goods	Non- dur- able goods	Mining	Con- struction	Trans- porta- tion and public utilities	Trade	Finance, insur- ance, and real estate	Service and miscel- laneous	Gov- ernment
1960-IIQ	54,510	25,370	4,600	7,330	720	2,910	4,810	11,440	2,670	7,330	2,510
1961-IQ	53,540	24,000	3,530	7,180	670	2,780	3,820	11,900	2,780	7,480	2,690
1962-IIIQ	55,580	26,840	4,500	7,240	640	2,790	3,920	11,630	2,890	7,800	2,220
1962-IVQ	55,530	26,710	4,430	7,290	630	2,890	3,920	11,590	2,820	7,850	2,380
Absolute Change											
I-1961—III-1962	2,040	890	470	160	-20	-50	0	320	78	340	530
II-1960—III-1962	970	-140	-100	-40	-80	-150	-120	190	120	470	710
III-1962—IV-1962	30	-120	-60	-60	-10	-40	0	-40	20	50	180

Note.—Changes are computed from unrounded figures. Sources: U.S. Department of Labor, Bureau of Labor Statistics.

41 hours, the longest since 1953. Hours of work had shown a sharp expansion during the course of 1961, reaching a high rate in the closing months of the year. For the most part, this high rate was maintained during 1962 and stands in contrast to the decline in employment after midyear.

For the nondurable industries, the workweek averaged 39.7 hours, as compared with 39.3 hours in 1961. On a seasonally adjusted basis, the

workweek was extended to 40 hours in the spring but was then reduced slightly after midyear. These changes paralleled those in employment.

Labor force growth slackens

The moderate reduction in unemployment during 1962 reflected both an increase in the number of civilian jobs and some growth in the Armed Forces (about 800,000) together with a lag in the rate of growth of the total labor force. The increase in the Armed Forces took place toward the end of 1961, and there was little further change during 1962. Although care must be exercised in interpreting short-time changes in the labor force series, it may be noted that the slackening in the growth of the labor force was most pronounced in the latter part of 1961, and this lagging was not made up in 1962 despite rather substantial increases during a part of the year. The labor force continues to be considerably below the expected trend based on population and past trends in participation rates.

Although current population estimates have been revised downward somewhat, the principal influence retarding the growth in the labor force is a sharp reduction in labor force participation, especially for younger age groups. Part of this is attributable to increased school attendance.

Unemployment reduced

The number of persons out of work fell to 4 million in 1962 from 4.8 million in 1961. The unemployment rate for the civilian work force averaged 5½ percent in 1962, down from 6.7 percent

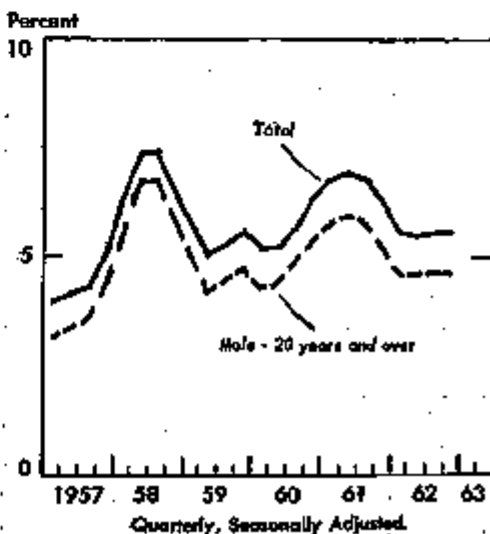
in 1961. The improvement in unemployment from 1961 was reflected in all of the principal social-economic groups of the population. For males, 20 years and over, the unemployment rate was 4½ percent, as compared with 5.3 percent in 1961. Unemployment was also lower for females in 1962 than in 1961, although among married women the rates were higher than for married men, as in other recent years. In addition, a smaller proportion of persons without jobs represented long-term unemployed, i.e., out of work for 15 weeks or more.

The number of workers on part-time employment for economic reasons declined during the early part of the year but showed some rise after midyear. Most of the rise occurred among workers who usually work full-time.

Aside from these short-run changes in unemployment associated with the cyclical advance, other changes are occurring in the composition of the unemployed due to longer term developments. The shift in employment toward government and service industries and away from commodity-producing industries has accentuated the typically higher rates of unemployment among blue collar workers as compared with the white collar group. Although their unemployment rates were reduced in the early part of the year, the unskilled and semiskilled workers experienced relatively high rates of unemployment during the latter part of 1962.

UNEMPLOYMENT RATE

Was Lower Than in 1961, but With Little Improvement During the Year



Quarterly, Seasonally Adjusted

Data: BLS

U.S. Department of Commerce, Office of Business Economics

62-1-16

Table 3.—Unemployment Rates Among Various Groups of the Civilian Labor Force

(Percent)

	1958	1959	1960	1961	1962
Male	6.8	5.3	5.4	6.5	5.2
20 and over	6.2	4.6	4.8	5.8	4.6
White	6.1	4.6	4.8	5.7	4.6
Nonwhite	13.7	11.5	10.7	12.9	9.5
Married, with spouse	5.1	3.6	3.7	4.6	3.5
Single	13.8	11.6	11.7	12.1	11.3
Female	6.6	5.9	5.8	7.2	6.3
20 and over	6.1	5.2	5.1	6.8	5.4
White	6.2	5.2	5.3	6.6	5.6
Nonwhite	10.8	9.5	9.5	11.9	11.2
Married, with spouse	6.5	5.2	5.2	6.5	5.5
Single	7.4	7.1	7.5	8.5	7.9
Industry of last job—wage and salary workers:					
Agriculture	9.0	8.7	8.0	9.8	7.5
Mining, fisheries, forestry	10.6	9.7	9.5	11.6	8.4
Services	4.6	4.3	4.1	4.9	4.8
Trade	5.7	5.8	5.9	7.2	6.4
Construction	13.7	12.0	12.2	14.1	12.0
Manufacturing	9.2	8.0	8.2	7.7	5.8
Transportation	8.5	4.2	4.8	3.7	3.9
Duration:					
Percent distribution of the unemployed, by duration of unemployment:					
Less than 5 weeks	39.2	43.5	44.8	39.5	43.9
5-14	29.4	29.2	29.9	28.6	23.0
15-26	16.8	12.3	12.8	16.1	18.2
27 weeks and over	14.2	15.0	11.5	15.7	14.8

Note.—(1962—based on 11-month averages).

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Price Level Inches Up

Industrial Prices Steady

THE year 1962 was another year of relatively small price changes in commodity markets as the Nation's ability to produce continued to be more than ample to meet the demands placed on it, but service prices continued their steady climb. The most comprehensive measure of price change, the overall GNP implicit price index, rose by about 1½ percent over 1961, about equal to the increase in each of the 3 previous years. Prices in consumer markets were up a little over 1 percent, wholesale prices of industrial products were very little changed while farm prices advanced by 2 percent.

Wholesale prices steady

The comparatively long period of price stability in wholesale markets—judged by postwar standards—was extended into 1962. The BLS Wholesale Index was very slightly higher than in 1961, reflecting higher quotations on both farm and processed food products. The industrial component averaged exactly the same as the year before and has actually registered a slight decrease since 1959.

The behavior of industrial prices is of interest because in every other recovery in the postwar period this component has advanced as industrial demands have strengthened. Even in the 1958-60 period, which witnessed the smallest price rise for any of the postwar recoveries, industrial prices rose about 2½ percent from the 1958 recession trough to the early 1960 peak; in the latest recovery, by way of contrast, prices have fallen by about one-half of 1 percent since the early part of 1961. Continued excess capacity among domestic producers and competition from abroad have led to price cutting or prevented prices from rising in a number of fields. Price stability was also fostered by the general ease in financial markets. This was abetted by the monetary policies of the Federal Reserve System, which facilitated the growth in credit with little change in interest rates. Another factor, the broad impact of which

is difficult to measure but which undoubtedly acted as a restraining influence, was the chain of events that culminated in the steel-price rollback last spring.

Although industrial prices were unchanged for the year as a whole, from the beginning to the end of the year the number of commodity groups showing price increases was somewhat larger than in either 1960 or 1961. Advances, however, were less frequent than in 1959 or in the years 1955-57. This is shown in the tabulation below, which is based on 72 subgroups of the non-farm-nonfood part of the BLS Wholesale Price Index.

By stage of processing the most sensitive component of industrial prices—crude materials—registered a decline for the third successive year, with most of the drop coming after the first quarter. Intermediate materials, producer finished goods, and consumer nondurables were about the same, on the average, as in 1961, while consumer durable goods averaged slightly lower for the year.

Durable goods prices ease

Durable goods prices in primary markets on the average were a little lower in 1962 than in 1961. Prices of metals and metal products as a group were lower for the second successive year, reflecting reduced quotations on iron and steel products and nonferrous metals. Prices of machinery and motive products as a group were unchanged for the second year in a row, after having advanced steadily through the postwar period; agricultural machinery quotations, however, were higher. Electrical machinery prices continued to drift slightly downward while prices of motor vehicles were about unchanged.

With manufacturing and trade inventories fairly heavy and sales slow, there was some price cutting in household appliances, including radio and TV sets; furniture prices, however, averaged higher for the year. A good

construction year kept prices of most building materials fractionally above those in 1961.

Wholesale prices in nondurable goods industries were slightly higher last year, with increased quotations for textiles and apparel, hides and leather, and paper. Despite increased demand, excess capacity led to price reductions in chemicals, petroleum, and rubber from 1961 to 1962.

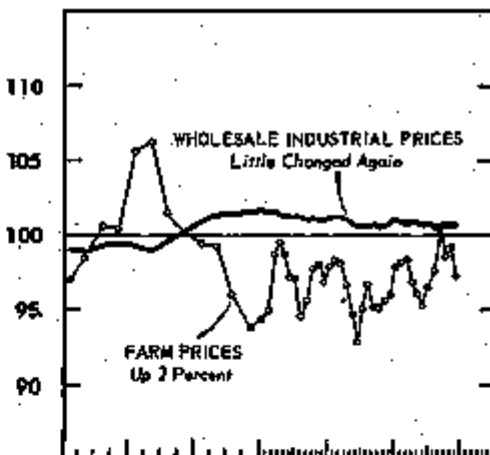
Consumer prices edged higher

The overall rise in consumer prices in 1962 was essentially a continuation of the pattern since 1958, with prices for the year as a whole 1.2 percent above those of 1961. The overall index stood at 105 percent of the 1957-59 average. Food prices, prices of commodities other than food, and service prices were all higher for the year.

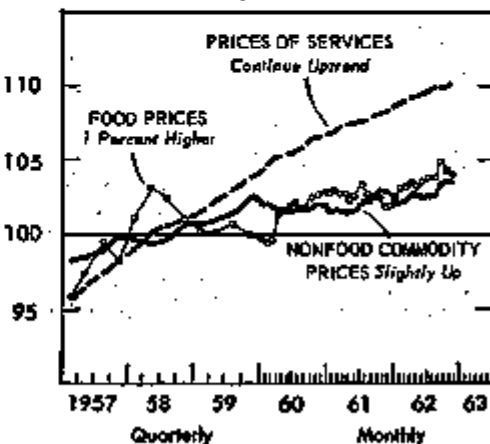
ANOTHER YEAR OF PRICE STABILITY

Wholesale Prices Up a Little

1957-59 = 100



Consumer Prices—Up 1.2 Percent in 1962



U.S. Department of Commerce, Office of Business Economics
Data: BLS
63-1-17

The rise in food prices approximately paralleled the increase in the overall index. Continued high demand brought higher quotations for meats, and short supplies caused advances in the prices of vegetables. Dairy product prices, however, moved lower as consumption failed to advance.

Table 4.—Direction of Change From Same Month Previous Year for Subcomponents of BLS Wholesale Price Index, Excluding Farm and Food Products

	Higher	Lower	Same	Total
December:				
1954	34	32	2	68
1955	52	14	2	68
1956	57	10	2	70
1957	52	15	2	70
1958	56	33	2	72
1959	52	17	2	72
1960	56	14	2	72
1961	52	25	2	72
1962	41	20	2	72

¹ December 1961 to November 1962, latest date available.
Source: U.S. Department of Commerce, Office of Business Economics, based upon U.S. Department of Labor, Bureau of Labor Statistics.

Among commodities other than food, prices of durable goods increased about 1 percent, reversing a decline of about 2 years duration. Although sales of both new and used cars were higher, new car prices were about the same as in the preceding year; in terms of market prices the strength of auto demand was mainly evident in the sharp price increases registered for used cars. Reflecting the reductions at the manufacturing level, prices of household appliances moved lower over the year and as of September averaged some 7½ percent below the 1957-59 average. Apparel, drugs, and tobacco had higher price tags for the year as a whole.

Services prices again registered larger than average increases with a 2 percent gain over 1961. Rents rose by more than 1 percent while services other than rents were up by almost 2 percent.

A feature of the year was the leveling out in the prices of services other than rents after the middle of the year. This group had been showing one of the largest increases of any of the major components of the CPI in the postwar period, with a gain of 32 percent over

the past decade. This stabilizing was attributable to a number of factors. Rates for electric and gas utilities stabilized this year, after a long and virtually unbroken postwar rise. Easy conditions in financial markets brought about a reduction in interest rates on home mortgages. In addition prices of public transportation leveled out. These factors offset large continued advances for medical care services and reading and recreation.

Further breakdown of price changes

Consumer prices are currently at record levels but needless to say all items are by no means uniformly higher. To show the diversity of price change a special breakdown was prepared for 147 individual nonfood items in the Consumer Price Index, for which quarterly quotations were available from 1947 through September 1962. The results are summarized below.

For about 40 percent of the items, the September 1962 quotation represented the peak for the entire postwar period; another third showed decreases from their highs ranging up to 5 percent, while the remainder showed decreases in excess of 5 percent.

As might be expected, the September 1962 quotations were highs most frequently in the case of services—75 percent of the service items were so classified. For nondurables about 30 percent were at new tops in September, while for durables only 20 percent represented highs. At the other extreme, 44 percent of the durable items were more than 10 percent below peak

levels as of September, as against 18 percent for nondurables, and zero for services.

Farm prices strong

Prices received by farmers moved a little higher in 1962 for the second year in a row as both crops and livestock showed some increase. Livestock and product prices had edged downward in the 3 preceding years, reflecting increased marketings. Marketings remained at a high rate in 1962, and with sustained demand there was an increase in prices in the fall of the year. Although livestock prices eased with heavy marketings in the closing months of the year, they remained above a year earlier. The principal advances were in meat animals. Dairy products were lower in 1962 as production increased. Support prices were lowered in the spring, but CCC purchases of dairy products were unusually large as demand continued the easing that had developed in 1961.

Crop prices averaged 2 percent higher in 1962, continuing the advance which had occurred the preceding year. Among the field crops, food grains were substantially higher, reflecting increased support prices, and feed grains, cotton, and tobacco were all up somewhat. Oilseed crops—chiefly soybeans—were lower than in 1961. Vegetable prices were higher and fruit prices were down, each reflecting changes in the size of crops marketed. Freezes in the winter vegetable and fruit belts near the end of the year had not yet been reflected in market prices.

Table 5.—Decreases From Postwar Peaks to September 1962, 147 Nonfood Items in the Consumer Price Index

Size of decrease (percent)	Commodities		Services	Total	Percent distribution			
	Nondurable	Durable			Commodities		Services	Total
					Nondurable	Durable		
0.....	22	5	30	57	26	30	73	39
-0.1 to -5.0.....	31	7	30	68	32	29	24	83
-5.1 to -10.0.....	12	2	1	15	15	6	2	19
More than -10.0.....	15	11	0	26	19	44	0	19
Total.....	81	25	41	147	100	100	100	100

Source: U.S. Department of Commerce, Office of Business Economics, based upon U.S. Department of Labor, Bureau of Labor Statistics.

The Balance of Payments

Some Improvement but Another Large Deficit in 1962

MODERATE gains were registered in the balance on international transactions of the United States in 1962, with favorable changes in capital transactions and investment incomes outweighing the reduction in our merchandise trade surplus since mid-1961. The adverse balance in our international interchange was less than in 1961, but resulted in a decline in U.S. net monetary reserves of about \$2 billion. This was reflected in a decline in the gold stock of \$0.9 billion, and an increase in foreign holdings of liquid dollar assets amounting to \$1.1 billion, with only a small change in holdings of foreign convertible currencies by monetary authorities.

Progress in reducing deficit

Reviewing the course of the balance of payments in the past few years considerable progress is evident, with the overall deficit brought down from a peak of \$3.9 billion in 1960 and a total of \$2½ billion in 1961. Programs to promote exports have been intensified. Measures have been taken to diminish the dollar outlays connected with U.S. Government aid programs and defense expenditures abroad, foreign governments have increased their current and anticipated military purchases in the United States and have made large advance repayments on postwar loans, and international monetary management has been further coordinated.

These measures, together with growing international cooperation, have helped to restrain speculative capital flows and probably prevented further accumulations of gold or liquid dollars assets by some countries. Cooperation of leading countries is especially

necessary when differences in cyclical conditions in the economies of the various economically advanced countries, and measures by the various governments to steer their economies toward a satisfactory rate of operation, may put pressures on trade balances as well as international capital movements.

The gradual devaluation of the Canadian dollar during the early part of last year, the establishment of a new exchange rate at the beginning of May, and subsequent speculative operations against the Canadian dollar which were

finally stopped by large-scale international assistance toward the end of June, set in motion capital flows and changed the timing of trade and other transactions in such a way as to add about \$600-700 million to our overall balance in the first half of the year, and subtract a similar or larger amount in the second half. These adjustments have not been made in the last line of the table; if these developments were taken into account, together with other special transactions, the overall balance would be about the same during the two halves of the year.

Trade and Service Accounts

RECENT trends in our merchandise trade have been examined in detail in the SURVEY OF CURRENT BUSINESS for August and December 1962, and only the highlights are summarized here. Data for the year are not yet complete.

Imports into the United States respond primarily to changes in domestic industrial production, therefore we had a sharp increase in imports between the first and second halves of 1961. An initial strong upturn in imports of industrial supplies and materials (which comprise about half of all U.S. imports) early in 1961—as the U.S. economy entered an expansionary phase—was followed by rising imports of other items, especially consumer goods. During 1962, imports of industrial supplies and materials reached a peak in the first quarter and then declined slightly, but the overall total of imports was carried upward by the steady growth of imports of other items.

Part of the shift in the values of major commodity groups in our imports is the result of a decline in prices of foodstuffs and industrial materials while prices of finished manufactures held steady. This also contributed to the relatively small share of only about one-fifth of the 1961-62 U.S. import expansion accounted for by less developed countries.

Falling trade surplus

While U.S. merchandise imports rose by about \$1.7 billion between 1961 and 1962, U.S. exports advanced by approximately \$½ billion (assuming no sharp change at the yearend). If allowance is made for increased financing out of U.S. Government grants and credits the rise would be somewhat smaller. The gain in exports was accomplished in the first half of the year, with most of the increase in non-aid-financed sales going to Continental Western Europe,

Canada, and Australia. After the first half of the year exports declined, particularly after deducting those which were financed by U.S. Government grants and capital, especially to India and Pakistan.

Much of the rise in our exports since 1958-59 has been associated with the vigorous growth of industrial activity in Western Europe and Japan, both because of the demands generated directly in those countries and their indirect influence on other major markets for U.S. goods. For Western Europe, however, the development of more adequate domestic supplies for many products by 1962 may well have weakened this relationship, and a slower rate of expansion is also likely to affect European demand for our capital goods. On the other hand, resumption of a more rapid upward movement of industrial activity in Europe, coupled with rising costs in those countries, would provide opportunities for an upward turn in our exports.

In the first half of 1962, when Europe experienced continued though somewhat dampened growth, a large part of our export gains to that area was in commodities not related to industrial production—military items, and agricultural products being purchased in anticipation of raised import levies. Except for a spurt in September associated with the impending maritime strike, exports to Europe dipped after midyear, with economic activity in some countries becoming less expansive.

Europe accounts for about one-third of all U.S. exports, and about one-half of all cash agricultural exports, and is also the principal supplier of our fastest growing import category—finished manufactures. Therefore, perhaps the most significant developments in our balance of payments in 1962 and for the future revolve about our trading and financial relationships with that area.

Exports to Canada in the first half of 1962 were relatively strong, in line with gains in economic activity, and were exceptionally high in the second quarter when a decline in the value of the Canadian dollar or import restrictions were anticipated. After midyear it became evident that the previously established new par value would be defended but new surcharges were im-

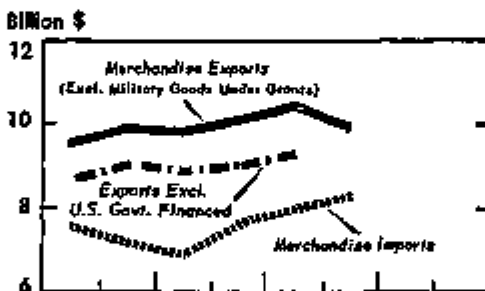
posed on imports into Canada. The reduced exchange rate and the surcharges, coupled with a somewhat slowed-down growth rate, impeded further increases in U.S. exports. Latin American countries as a group have been importing less from the United States as their export earnings have lagged and capital inflows have diminished.

Our trade surplus with Japan was about \$0.7 billion in 1961, but was reduced to a negligible amount in the first 10 months of 1962 as exports dropped while imports continued upward. Japan appeared to be allowing imports to expand somewhat toward the end of 1962.

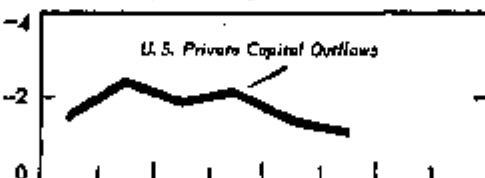
As a result of divergent movements of exports and imports, preliminary

U.S. BALANCE OF PAYMENTS IN 1962

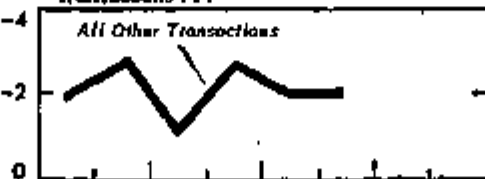
A Declining Favorable Trade Balance Since Mid-1961 . . .



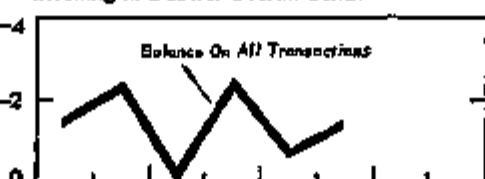
Was Offset by Lower Capital Outflows in 1962 . . .



and Reduced Net Payments for Other Transactions . . .



Resulting in a Lower Overall Deficit



Half Yearly; Seasonally Adjusted.
U.S. Department of Commerce, Office of Business Economics 42-1-18

indications are that the U.S. trade balance was cut from \$5.4 billion in 1961 to about \$4.2 billion in 1962, with the surplus narrowing in the second half of the year.

Increased receipts from services and investment income

A sizeable annual increment in our receipts from abroad is yielded by investment income and returns of contractors fees, royalties, and other service charges. Income receipts from private foreign investments were up about \$0.3 billion in 1962, about 9 percent. The gain in incomes from direct investments was probably under \$0.2 billion, a lesser increase than was registered in 1961. Receipts from these investments in Europe showed little or no increase over 1961, suggesting that earnings may have been subjected to a squeeze between rising costs and increased competition and also that a higher proportion of earnings may have been retained abroad. Small increases in income were registered for Canada and Latin America, but the largest gains were from Asia.

The mounting volume of "short-term" capital outstanding as well as increased holdings of foreign bonds resulted in sizeable additions to income receipts. U.S. Government interest receipts on outstanding credits rose by about \$0.1 billion, though a substantial portion of this was in foreign currencies.

Receipts from other services increased by about \$0.2 billion, mainly from rising management fees and royalties.

Payments to foreigners for services and on income accounts in 1962 increased more sharply than has been the experience in recent years. Travel expenditures in Canada and Western Europe reached record amounts in the summer months. In addition, income payments on foreign private investments here and on foreign holdings of U.S. Government obligations rose by about \$0.1 billion.

Private capital outflows diminish

Much of the year-to-year reduction in the size of the adverse balance is attributable to a drop of more than \$1 billion in the net outflow of U.S. private capital, although it should be

emphasized that data for capital flows are especially variable in the closing months of the year, for which only very incomplete data are available. Long-term flows appear to have changed only moderately, with lower direct-investment flows offset by rising purchases of foreign securities, but short-term flows fell by perhaps \$1 billion.

The drop in outflows of U.S. capital in 1962, was partly offset by lower receipts from the lessened flow of foreign capital into U.S. corporate securities.

Net capital outflows by U.S. companies for direct investments abroad appear to have fallen by 10-20 percent in 1962 from the relatively high \$1½ billion of 1961. Europe received about half of the 1962 flow, up slightly from 1961, but the absolute amount is not likely to have changed significantly and there were some signs of a downturn after midyear. The flow to Canada was substantial and prospects for an increased rate of investment improved after midyear, though the flow would still be considerably under the amounts experienced in earlier periods when major resource developments were undertaken.

For Latin America the overall flow of capital from U.S. companies had contracted sharply by mid-1961, and was not resumed in 1962, although the last quarter should reflect some seasonal rise. Within this overall experience, however, it appears that flows for manufacturing to countries other than Brazil have been well maintained. Sizable flows are continuing to other areas, mainly for resource development in less-developed areas, and also to Australia and Japan.

Purchases of new foreign bonds and stocks offered in the United States spurted sharply in 1962, with the year's total perhaps double the \$0.5 billion of 1961. The outflow was especially large in the fourth quarter, when Canadian borrowers were prompted to come into this market by the continued lower borrowing costs here, the changed attitude of the Canadian Government toward such financing, and the advantage of a reduced and stabilized value of the Canadian dollar. The Canadian Government itself was a major borrower in that period. For the year as a whole, Canadian issues accounted for about 40

percent of the total, international institutions for about \$150 million, and Japan for nearly \$100 million. U.S. purchases of new European stocks and bonds approached \$200 million, much more than in other recent years, but the flow was small in the last half of the year.

The figures given here for new issues include only purchases by U.S. residents—there are also substantial purchases by foreign investors which have no effect on our balance of payments. Moreover, some of the 1962 issues were to finance repayments of U.S. bank loans or other financing. The large and relatively low cost U.S. capital market continues to be a major source of long-term financing, while other capital markets are not yet sufficiently developed to serve as adequate alternative sources of funds.

Although U.S. investors were willing purchasers of new foreign issues, they sharply reduced their purchases of foreign equity securities after the worldwide decline in equity security markets early in the year. However, the reduction in outflows of this type by roughly \$0.2 billion was matched by the drop in

foreign purchases of U.S. equity securities, with a sizable net liquidation taking place after May but perhaps being reversed at the yearend.

The recorded net outflow of private short-term capital was probably under \$0.5 billion in 1962, since there has been no indication of extraordinary yearend flows such as occurred in 1961. Outflows of some size in the early part of 1962 consisted mainly of the final drawings on credits to Japan, and some liquidation of these credits, which made up a substantial part of the very large outflows in 1960 and 1961, began in September.

Short-term bank credits outstanding were reduced on balance after March; temporary capital flows for "window-dressing" went to Canada in October, but were quickly reversed in November. Other short-term capital of nonfinancial concern also appears to have been attracted by the higher Canadian interest rates on relatively liquid assets.

Outflows of short-term capital were limited during the year by the efforts of monetary authorities to influence the interest rate differentials on comparable liquid assets, and also to take appro-

Table 1.—U.S. Balance of International Payments, 1960-62¹

(Billions of dollars; seasonally adjusted)

	1960	1961			1962			Change (improvement) 1961-62
		Total	I	II	Total	I	II	
			Half year			Half year		
U.S. expenditures abroad, total.....	31.3	31.8	15.1	16.7	32.9	16.4	16.5	-1.4
Merchandise imports.....	14.7	14.5	6.8	7.7	15.2	8.0	8.2	-1.7
Military expenditures.....	8.0	2.9	1.5	1.4	3.0	1.5	1.5	-0.1
Other services, income, remittances and pensions.....	8.2	8.4	3.1	3.3	9.7	3.3	3.4	-0.9
Government grants and capital outflows.....	8.4	4.1	1.8	2.3	4.8	2.1	2.2	-0.2
(of which, dollar payments to foreign countries and international institutions).....	(1.2)	(1.3)	(0.6)	(0.7)	n.a.	(0.5)	n.a.	n.a.
U.S. private capital.....	2.9	4.0	1.9	2.0	2.7	1.6	1.3	+1.3
(of which, short-term).....	(2.3)	(1.5)	(0.9)	(0.6)	n.a.	(0.2)	n.a.	n.a.
U.S. receipts from abroad, total.....	28.0	29.9	15.3	14.6	31.7	15.7	16.0	+1.8
Merchandise exports.....	10.5	10.8	6.8	10.1	20.4	10.4	10.0	+0.5
(Other than Government financed).....	(17.7)	(17.7)	(8.8)	(8.9)	n.a.	(9.3)	n.a.	n.a.
Services, income, and military sales.....	7.6	8.2	4.0	4.2	9.0	4.6	4.5	+0.8
Repayments of U.S. Government loans.....	0.6	1.3	1.0	0.8	1.3	0.4	0.9	-----
Foreign capital other than liquid funds.....	0.3	0.6	0.5	0.1	1.0	0.4	0.6	+0.3
Total recorded transactions (receipts +).....	-3.3	-1.9	0.2	-2.1	-1.2	-0.7	-0.5	+0.7
Transactions unaccounted for (receipts +).....	-0.5	-0.6	-0.4	-0.2	-0.8	-----	-0.8	-0.2
Balance—change in gold and convertible currencies held by monetary authorities and increase in U.S. liquid liabilities.....	-3.8	-2.5	-0.2	-2.3	-2.0	-0.7	-1.3	+0.3

Details may not add to totals because of rounding.

n.a.—Not available.

1. Data for the last half of 1962 are preliminary and incomplete.

private action to prevent the pattern of spot and forward exchange rates from accentuating such differentials. Reciprocal credit facilities entered into by the Federal Reserve, and continued Treasury exchange operations, in cooperation with foreign monetary authorities, have also alleviated temporary pressures in the exchange markets.

The errors and omissions item expanded suddenly to a net debit of over \$0.4 billion in the third quarter, and apparently continued negative in the fourth quarter. In the third quarter this may well have reflected a return flow of capital to Canada after confidence in the Canadian dollar was restored and Canadian interest rates were sharply raised. These flows probably continued on a reduced scale into the fourth quarter, though Canadian authorities quickly pushed down short-term interest rates.

U.S. Government international operations

A major share in the improvement of the balance of payments in 1962 was accounted for by higher receipts by the U.S. Government, while expenditures abroad were held steady. Defense expenditures abroad did not vary significantly from the \$2.9 billion of 1961. Total transfers under grant and capital assistance programs rose moderately, but outlays resulting in cash disbursements to foreign countries were probably less than in the previous year.

Net outlays connected with military operations were reduced by roughly \$0.6 billion, mainly representing an acceleration of deliveries of military items purchased by European countries and payments for future deliveries.

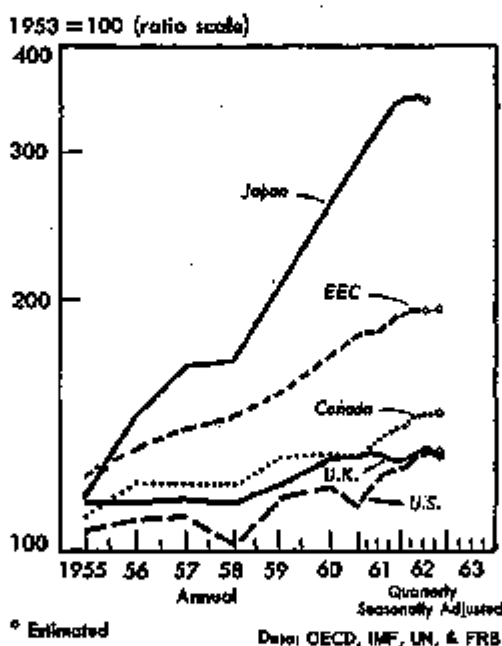
In line with the increased cooperation of monetary authorities noted above, the U.S. Government also benefited from some \$250 million received from the sale of 15-month bonds denominated in Italian lire and Swiss francs in the closing months of 1962. In addition, subscriptions to the International Development Association and the Inter-American Development Bank were invested in non-marketable U.S. Government obligations during the year. Under these various arrangements, there was an increase of over \$½ billion in foreign holdings of non-

liquid U.S. Government obligations during 1962.

Also of considerable benefit in 1962, as in 1961, were advance repayments of postwar credits amounting to some \$665 million. France repaid \$470 million, Italy \$179 million, and Sweden \$16 million. Regularly scheduled repayments on loans were also higher in 1962. These large lump sum repayments by countries currently accumulating dollars are well timed to smooth out changes in international reserve

INDUSTRIAL PRODUCTION INDEXES FOR MAJOR COUNTRIES, 1955-62

Increases Slow Down or Are Reversed
in Recent Period



positions. By the end of 1962, however, most countries experiencing reserve gains had repaid all or a substantial part of their 1946-49 borrowing in the United States.

Changes in foreign reserves

The decline in the gold stock of the United States was about \$0.9 billion in 1962, slightly more than in 1961. Sales to foreigners were heaviest early in the year and in July. The U.S. gold stock is also reduced by the continuous growth in domestic demand for gold to be used in industry.

Official gold reserves of foreign countries outside the Soviet bloc probably increased by less than \$1.5 billion, although the supply of gold included not only the U.S. sales but also new production on the order of \$1½ billion and sizable sales by Russia. This indicates that over \$½ billion of gold was purchased by private foreign holders. Despite this unusually large demand, the price of gold was held quite stable during the year. Comparatively little speculative pressure was evident in the exchange markets even at the time of the Cuba crisis, and as the year ended the relatively low price indicated a considerable reduction in the nonmonetary demand for gold.

Increases in gold holdings were registered primarily by France, the United Kingdom, South Africa, Spain, Austria, and Belgium. Canada experienced large losses prior to the middle of the year and Argentine holdings were also reduced considerably.

Relatively few countries added substantially to their liquid dollar holdings in 1962. Canadian holdings were bolstered by \$650 million of special assistance provided in June, and by the subsequent return of short-term funds and long-term borrowing abroad. Repayments on the special assistance were made late in the year. France was the principal European gainer of dollar assets in the year, despite the large repayments to the United States and Canada on postwar loans. British dollar holdings were substantially reduced, but this reflected the liquidation of drawings on the IMF in 1961 by the United Kingdom and Australia, as well as some rebuilding of gold stocks.

Germany and Italy had only minor changes in dollar holdings in 1962; Germany accelerated dollar payments for military purchases here and Italy repaid loans. Several other European countries added moderate amounts to dollar holdings, and Japan's austerity program yielded some dollar gains. Dollar holdings of the IMF and other international institutions rose by over \$1 billion in 1962, as large repayments of earlier drawings were received, as well as new capital funds and net income from operations.